ABSTRACT

This study has been carried out to explore the interrelationship between agriculture and industrial sectors, and their contribution to GDP growth of Pakistan for the period 1973-2000. The concept of industrialization provided the basis of this research. It has been argued that industrialization is the key element in the economic development. This notion has been propagated much in the past and several policies have been designed to promote the industrial sector of Pakistan. But, unfortunately, these policies could not bring the desired results because most of them were formulated at the cost of agriculture sector. Despite of all efforts and commitments, the industrialization process could not reach the desired level. The primary reason of this failure was that all such policies neglected the significant and vital role of agriculture sector. Attempts were made to develop the industrial sector exclusively, ignoring the "two legged theory."

Various studies have pointed out that policies for industrialization were promulgated without generating the demand of agriculture sector for the industrial output. In addition to this, the level achieved through industrialization in Pakistan during the late 1950s and 1960s, was cleaned out by the nationalization in 1974. On the other hand, green revolution brought the breakthrough in the agricultural output, though the land reforms could not served well.

In order to investigate the inter-sectoral linkages between agriculture and industry, Vector Auto Regressive technique is applied to estimate the complementarity between these sectors. Service sector has also been included in the analysis because of its significant contribution in GDP. The results portray a good justification of inclusion of this sector in the study. The obtained results testify the aforementioned stand point that without giving due attention to the agriculture sector, we simply cannot achieve the goal of sustainable industrial development and growth. Without this, whatever we achieve, will be of short term, and will lack sustainability.

No doubt, a sector contributing 25% to GDP, 70% to exports, employing 44% of labor force, supplying most of the inputs, has huge potential to generate a sustained demand for the industrial output. The need is to tap this potential. The findings of the study reflect that growth in agricultural sector has a much bigger positive effect on industrial growth as compared to the effect of industrial growth on agricultural growth. It has been estimated that, in the long run, a one percent increase in agricultural growth will trigger the industrial growth by 3.4 percent. On the other hand, one percent increase in industrial growth will lead only to 0.4% growth in the agriculture sector. These findings speak that in order to develop the industrial sector, we must attach high attentions with the development of agriculture sector.